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SUBJECT: AMBASSADOR BOYCE CALLS ON THAI COMMERCE MINISTER

Classified By: Ambassador Ralph L. Boyce. Reason: 1.4 (b) and (d)

11. (C) Summary. Ambassador Boyce paid his first official call on Thai Commerce Minister Watana Muangsook on February 4, 2005. A beaming Watana predicted a landslide for the ruling party on February 6, saying it was vindication of Prime Minister Thaksin Shinawatra's hands-on "CEO style." Watana also observed the US response to the December 26 Tsunami disaster had "won many friends" in his country. The

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Ambassador applauded Thailand's strong economic growth. The Minister noted current high rice prices were a boon and said quality trumps cheap prices in the export market. Watana said the Royal Thai Government (RTG) looked to increase economic growth through domestic spending. Following elections, the Ambassador was hopeful Free Trade Agreement talks could be re-energized. Watana said if he was in charge "they'd be done by now," and affirmed Thailand's commitment to concluding an FTA. Watana said he appreciated the USG's reduction of the anti-dumping shrimp tariff and the "changed circumstances" reassessment currently underway following the Tsunami disaster. Watana concluded the meeting by updating

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the Ambassador on the Ford and Gregory and Cook commercial disputes, saying he would keep the Ambassador apprised of future developments. End Summary.

ELECTIONS: MINISTER PREDICTS A LANDSLIDE

12. (C) A buoyant Commerce Minister Watana Muangsook predicted a 370-seat landslide for the ruling Thai Rak Thai (TRT) party in the February 6 elections. Watana estimated that the TRT would win 31 of Bangkok's 37 seats outright, and would pick up another 2-3 seats in four more hotly contested Bangkok constituencies. (Note: TRT actually appears to have won 32 Bangkok seats. End Note.) Ambassador Boyce noted TRT's 2001 election win was unprecedented in three ways: TRT fielded much younger candidates, Bangkok voted like the rest of the country, and the party won a majority. (Note: A rerun of disputed seats later deprived TRT of its overall majority. End note.)

13. (C) The Commerce Minister countered that these "revolutionary" firsts in 2001 were now outdone by the TRT being the first party to complete a full term, and expectations Prime Minister Thaksin Shinawatra would be the first PM elected to a second term. Watana said he expected the Election Commission (EC) would endorse the results on March 6, allowing the convening of parliament and election of a Speaker on March 7. The Minister said the end of the election period now cleared the way for action on many fronts, adding that PM Thaksin would visit the country's trouble plagued south soon after the vote.

THE US AND THAI IMAGES

14. (C) The Ambassador commented on negative Thai perceptions of the US following the 1997 financial crisis. Watana downplayed any lingering feelings of unhappiness, commenting "Thais tend to forget the bad." He noted the US response to the December 26 Tsunami disaster had "won many friends" and improved America's image in the country. The Ambassador observed that the Tsunami had highlighted Thailand's position as a regional leader, noting that no one had questioned Thailand's selection as a base for regional relief efforts.

THE ECONOMY: "LET THEM EAT RICE..."

15. (C) Ambassador Boyce applauded Thailand's 22 percent GDP growth over the last four years, only outpaced by China, and an amazing feat considering the economic crisis less than a decade earlier. The Minister remarked that economic indicators were good for agricultural commodities rice and tapioca. Watana noted rice is now priced at USD 300 per ton, a boon for Thai exports given Asia's inelastic demand.

...AUSTRALIA IS THE MODEL, INDONESIA

16. (C) Watana noted the common belief is that exporting cheap goods was the best way to increase exports but he disagreed. He said quality is a better strategy than cheap prices, along with convenience and other factors. The Ambassador cautioned that demand was a paramount consideration, suggesting that you can't sell what people don't want. The Minister explained RTG's strategy to increase export-reliant Thailand's domestic market as an engine for economic growth. Comparing Thailand to Australia, Watana noted the latter has just 20 million people (one third Thailand's population) and exports amounting to just 80 percent of Thailand's, but three times its GDP. Similarly, Chile's 15 million people had a per capita income more than three times Thailand's 62 million. Watana said the key to duplicate their success was developing domestic demand: "You need to give the poor money so that they have money to spend." The Ambassador replied that loans rather than giveaways might be a more sustainable strategy. The Ambassador also pointed out that Australia might not be the best economic model for Thailand. Watana noted he was very impressed with Indonesia's new Trade Minister, Ms. Mari Pangestu, noting that she is the only non-Muslim in the cabinet. He noted with envy the size of Indonesia's potential domestic market.

FTA: LETS GET THIS THING DONE

17. (C) The Ambassador noted the Thai public's generally negative perception of a prospective US free trade agreement and that he therefore understood the RTG's efforts to keep the politically sensitive issue out of the press while contesting the election. Ambassador Boyce expressed hope that with the election over, both sides could begin a concerted campaign to highlight the mutual benefits an FTA would bring. The Ambassador noted that while most Thais believe the treaty will put them at a disadvantage, the reality is that both countries would greatly benefit from an FTA. The Ambassador expressed his hope that with elections over the RTG leadership would not lose momentum in pursuing an FTA.

18. (C) Minister Watana explained that responsibility for the US-Thai FTA lay with a special commission chaired by Finance Minister Dr. Somkid Jatusripitak. Watana noted that although Commerce staff are on the negotiating team, "my people are not in charge," as when his Permanent Secretary Mr. Karun Kittasatporn (also present) was chief negotiator for the successfully completed Thai-Australia FTA. Watana pronounced that if Commerce was in charge of the US-Thai FTA negotiation, "It would be done by now." Trade Negotiation Director General Ms. Apiradi Tantraporn noted that while the full negotiation rounds had been postponed, smaller negotiating groups were meeting, such as the recent textile round in Bangkok, and the investment group meeting in Washington D.C. next week. She said Thailand is "fully committed" to see the negotiations through.

ANTI-DUMPING TARIFF ON THAI SHRIMP

19. (U) Minister Watana expressed appreciation for the US reduction of the average anti-dumping import tariff on Thai frozen shrimp from 6.03 percent to 5.95 percent. (Note: Among the six countries subject to the shrimp tariff, Thailand is the largest exporter at USD 956.8 million worth in 2003. The Commerce Ministry's Foreign Trade Department believes the reduction will help strengthen Thailand's competitiveness in the US prawn market. End Note.) The Ambassador explained that the US International Trade Commission (ITC) was reviewing the tariff in light of changed circumstances stemming from the December 26 Tsunami disaster. The Ambassador noted that the Embassy Economic Counselor was currently in the south to assess damage done to the Thai shrimp industry. The Ambassador said that the ITC determination would likely take a few months. The Minister voiced his gratitude for the Embassy's efforts.

FORD CUSTOMS PROBLEM

10. (C) Ambassador Boyce asked the Minister for an update on the Ford customs issue. (Ford owes the RTG USD 12 million in unpaid customs duties over a two-year period. Thailand's Department of Special Investigations (DSI) is pursuing a criminal case against Ford, accusing the company of evading the duties in an attempt to defraud the RTG. Ford has said it was a good faith error and wants to pay the duties owed, but is unwilling to accept any direct or implied admission of criminal activity. In an October 21 meeting between PM Thaksin and Ford executives (which Watana attended), the PM seemed to agree with Ford's argument and asked his staff to resolve the matter. In a November 18 follow-up meeting, Justice Minister Pongthep Thepkanjana (who also attended the previous meeting), argued the criminal case was clear and would not be dropped. In a December 2004 meeting with former Ambassador Johnson, Watana pledged to resolve the matter, though probably not until after elections. Ford has seen no interest in compromise during recent meetings with Finance

Ministry (responsible for customs matters) officials and believes criminal warrants will soon be issued. The Japanese Embassy was told by the Finance Deputy Minister that there is nothing he can do.) Watana noted he had met with Ford Executives several times and that the Prime Minister had told Ford in his meeting that he hoped the problem could be solved amicably. Watana said he expected to travel to the US in March or April, implying that the Ford case would figure prominently in his travel plans.

GREGORY COOK - PTT DISPUTE

11. (SBU) Minister Watana also offered an update on the dispute between American company Gregory and Cook and 70 percent RTG-owned oil company PTT (Petroleum Authority of Thailand) Public Company Ltd. (PTT). (Gregory and Cook formed a joint venture (IGC) with a Singaporean company (IPCO) in 1994 to construct two gas pipelines for the then 100 percent RTG owned state oil enterprise, but in 1995 a dispute arose. The Court of Arbitration of the International Chamber of Commerce awarded IGC USD 25.3 million in 2002, but PTT has yet to provide payment. In 2003 the USG facilitated discussions to reach a settlement; discussions were held but to date PTT has not responded to IGC's December 2004 settlement offer.) After chronicling the background of the case, Watana explained that US Commerce Secretary Evans had asked him to mediate the dispute; Permanent Secretary Karun noted that the presence of the Singaporean claimant added further complexity in resolving the matter. Noting IGC's desire to settle the dispute outside of court, the Ambassador stated that meeting behind closed doors would go further to resolve the dispute than a public airing in the Thai press. Watana promised to keep the Ambassador apprised of further developments in the case.

BOYCE